

INFLUENCE THE EFFECTIVENESS OF GOVERNMENT INTERNAL CONTROL SYSTEM ELEMENTS TO THE QUALITY OF FINANCIAL STATEMENTS AT THE GOVERNMENT OF SERDANG BEDAGAI REGENCY

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ABSTRACT

The purpose of this study is to analyze the influence effectiveness of Government Internal Control System Elements to the quality of financial statements at the Government of Serdang Bedagai Regency. The type of research used is quantitative research that is causal associative. Population in this study were budget users (PA)/KPA, financial administration officials in 47 SKPD in the district Government of Serdang Bedagai Regency, so the population amounted to 141 people. Of the questionnaires distributed, the number of questionnaires returned was 126. Research method using census method, the entire population in this study used as sample research. Data analysis method using IBM SPSS program version 22. The result of this study indicate that the control environment, risk assesment, control activities, information and communication, and monitoring have a positive and significant impact on the quality of district government financial statement Serdang Bedagai.

Keyword : *Quality of financial statements, risk assessments, control activities, information and communications, and monitoring*

1. INTRODUCTION

The current phenomenon in the development of the public sector in Indonesia is the strong demand for accountability of public institutions, both at the central and regional levels. Accountability can be interpreted as an obligation to account for the success or failure of the implementation of the mission of the organization in achieving the objectives and targets set, through a media accountability carried out periodically (Mardiasmo, 2006). Accountability and transparency in central and local government financial management are important goals in accounting reform and public sector administration. One of the main pillars of the economy in a region is the accountability of trusted and responsible stakeholders in managing public resources provided by communities in financing development and governance.

Based on Law Number 17 Year 2003 regarding State Finance and Law Number 33 Year 2004 regarding Financial Balance between Central Government and Local Government, including its implementing regulation mandates to prepare steps for institutional arrangement, regional finance management rules at least perform the functions of regional budget planning, regional treasury and regional financial accounting in preparing financial statements aimed at realizing transparency and accountability of state / regional financial management. The Government's financial report is an accountability by the central and local governments for the financial management entrusted to them. Law Number 17 Year 2003 requires the President and Governor / Regent / Mayor to submit an accountability report on the implementation of the State Budget (APBN) or APBD (Regional Income and Expenditure Budget) in a Financial Statement.

In accordance with Law Number 1 Year 2004 regarding State Treasury in Article 51 paragraph (2) states that the Head of SKPD as Budget User must apply accounting system for financial transactions, assets, debt and equity funds, including income and expense transactions that are under his responsibility and is obliged to present SKPD's financial report.

The financial statements include the Budget Realization Report of the APBN / APBD, Balance Sheet and Cash Flow Report and Notes to the Financial Statements and as amended by Government Regulation Number 71 Year 2010 to become Budgetary Report consisting of Budget Realization Report (LRA) and Report on Changes in the Existing Budget Balance (LPSAL), Financial Reports consisting of Balance Sheet, LO (Operational Report), LPE (Statement of Changes in Equity), and LAK (Cash Flow Report), and CaLK (Notes to Financial Statements)

Audit Opinion given by Audit Board of RI (BPK) to the Government Financial Statements of Serdang Bedagai Regency for 6 years from 2011 to 2016 based on Summary of Examination Result of First Semester of 2017 are as follows:

Table 1.1 List of BPK Audit Opinion on Financial Statement of Serdang Bedagai Regency from 2011 to 2016

NO	YEAR	OPINION
1	2011	Qualified Opinion (WDP)
2	2012	Qualified Opinion (WDP)
3	2013	Qualified Opinion (WDP)
4	2014	Unqualified Opinion-With Explanatory Paragraphs (WTP-DPP)
5	2015	Qualified Opinion (WDP)
6	2016	Qualified Opinion (WDP)

Source: IHPS I BPK RI year 2016

The Government of Serdang Regency was chosen as the object of research because LKPD Serdang Bedagai Regency is a district that has received Unqualified Opinion With Paragraph Explanation (WTP DPP) in 2014, but in 2015 and 2016 with the opinion of Qualified Opinion (WDP), still there are findings of non-compliance with laws and regulations and the weakness of SPIP in which BPK-RI provides many recommendations to overcome the problems found. Although the District Government of Serdang Bedagai has made improvements every year in financial governance but still needs improvement.

The application of Government Internal Control System (SPIP) to the planning, implementation, supervision and accountability in every local government activity must be implemented in an orderly, controlled, efficient and effective manner so as to give good quality report result. The research of Yosefrinaldi (2013) showing SPIP has a positive and significant effect on the quality of local government financial report, it is in line with Herawati research (2014) states simultaneously there is a positive and significant influence between control environment, risk assessment, control activities, information and communication, and monitoring the quality of financial statements. In addition, Nugraha (2010) concluded that the control environment, risk assessment, control activities, information and communications, and monitoring have a positive and significant impact on the reliability of the financial statements. But the influence of SPIP on the quality of financial statements still shows inconsistent results, which according to Arfan, et al (2016) understanding of SPIP does not directly affect the quality of financial statements. While Simon, et al (2016) concluded that the internal control system has a negative and insignificant influence on the quality of financial statement information.

Based on the above explanation and the inconsistency of the research result, the research idea was found to study about: Influence Effectiveness of SPIP Elements to the Quality of Financial Statement at the Government of Serdang Bedagai Regency.

2. LITERATURE REVIEW

2.1. Quality of Local Government Financial Statement

The financial statements are the last result of the implementation of an organization's accounting system. The principal financial statements to be drafted by the government in accordance with Law Number 17 Year 2003 regarding State Finance include: (1) reports on the realization of APBN / D; (2) balance sheet; (3) cash flow statement; (4) notes to the financial statements; and (5) attachment of financial statements of state / regional companies.

In preparing the financial statements, the government should refer to Government Regulation No. 71 of 2010 on Government Accounting System. Governmental Accounting Standards (SAP) states that the qualitative characteristics of financial statements are normative measures that need to be realized in accounting information to meet its objectives. There are four characteristics that become normative prerequisites for government financial reports to meet the desired quality, namely:

a. Relevant

Financial statements are said to be relevant if the information provided is capable of influencing user decisions by helping them evaluate past or present events, and predicting the future, as well as affirming or correcting their evaluation results in the past. The relevant financial statements should have feedback value, predictive benefits, timely, and complete in the presentation. For information to be relevant then the report presented should be based on information needs by users of government financial reports.

b. Reliable

Reliable information has the meaning of being free from misleading notions and material mistakes, presenting facts honestly, and verifiable. The information presented may be relevant, but if the presentation is not reliable then the information presented is potentially misleading and harmful to the users of the financial statements. The characteristics of financial statement information can be said reliably if the presentation is honest, verifiable, and neutral.

c. Comparable

The information contained in the financial statements will be more useful if it can be compared with the previous period or with the financial statements of other reporting entities. Comparison can be done internally or externally. Comparison internally is by comparing the same accounting policies from year to year, while comparing externally comparing entities that have the same accounting policies. To be comparable, the presentation of government financial statements should be presented in 2 (two) fiscal years.

d. Understandable

The information presented in the government financial statements can be understood if the user understands the information presented and is able to interpret it. Therefore, the presentation of financial statements should, as far as possible, use the formats and terms in accordance with the user's understanding of the government's financial statements. The user in this case is assumed to have adequate knowledge of the operations of the reporting entity and has a willingness to study the information presented in the government financial statements.

2.2. Government Internal Control System (SPIP)

The definition of internal control by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Modern Auditing Boynton and Kell (2003), internal control is a process carried out by boards of directors, management and other personnel in an entity designed to provide reasonable beliefs regarding achievement of objectives in the following categories: (a) reliability of financial reporting (b) compliance with applicable laws and regulations (c) effectiveness and efficiency of operations

Internal control system is one of the important management functions, which is understood as an effort to direct the achievement of organizational goals. So the general definition used to describe the SPI according to Pusdiklatwas BPKP (2009), is the internal control includes organizational planning and all organizational methods and measures implemented by an organization in order to protect the assets, check the accuracy and reliability of the record, the efficiency of the implementation of activities, and encourage compliance with the stipulated activity management policy.

Pusdiklatwas BPKP (2009) in COSO theory says that internal control consists of five main components that are interrelated. This component is derived from the way management performs its task and therefore this component is united and intertwined in the management process. COSO formulates five components of the internal control system, as follows.

- 1) Control Environment
- 2) Risk Assessment
- 3) Control Activities
- 4) Information and Communication
- 5) Monitoring.

2.3. Control Environment

Government Regulation No. 60 of 2008 requires the leadership of government agencies to create and maintain a control environment that raises positive and conducive behavior for the application of SPIP in its working environment through eight sub elements namely 1). Enforcement of integrity and ethical values; 2). Commitment to competence; 3). Conducive leadership; 4). Establishment of organizational structure as needed; 5). Delegation of appropriate authorities and responsibilities; 6). Preparation and implementation of sound policies on human resources development; 7). The realization of the role of effective internal government oversight apparatus; and 8). Good working relationship with relevant government agencies.

2.4. Risk Assessment

Government Regulation Number 60 Year 2008 on Government Internal Control System defines risk as a possible event that threatens the achievement of government agencies' goals and objectives. The definition emphasizes the existence of uncertainty that can bring risks. Therefore, in relation to the risks faced, the agency head must assess the risks. The Risk Assessment Elements are split into two sub elements, namely: a) Risk identification; and b) Risk analysis.

2.5. Control Activities

Government Regulation Number 60 Year 2008 regarding Government Internal Control System, describes the element of control activities into eleven sub elements namely: 1). reviews on the performance of relevant government agencies; 2). human resource development; 3). control over the processing of information systems; 4). physical control over assets; 5). stipulation and review on indicators and performance measures; 6). Separation of functions; 7). Authorization of important transactions and events; 8). Accurate and timely recording of transactions and events; 9). Restricted access to resources and records; 10). Accountability for resources and records; and 11). Good documentation of internal control systems as well as important transactions and events.

2.6. Information and Communication

Government Regulation Number 60 Year 2008 on Government Internal Control System, describes the elements of information and communication into two sub elements, namely: a). Communication means; and b). Management of information systems.

2.7. Monitoring

Government Regulation Number 60 Year 2008 describes the element of Intern Control Monitoring into three sub elements, namely: a). Ongoing monitoring; b). Separate Evaluations and Follow-up recommendations of other audit and review results.

Conceptual Framework

In this study the conceptual framework used can be described as follows:

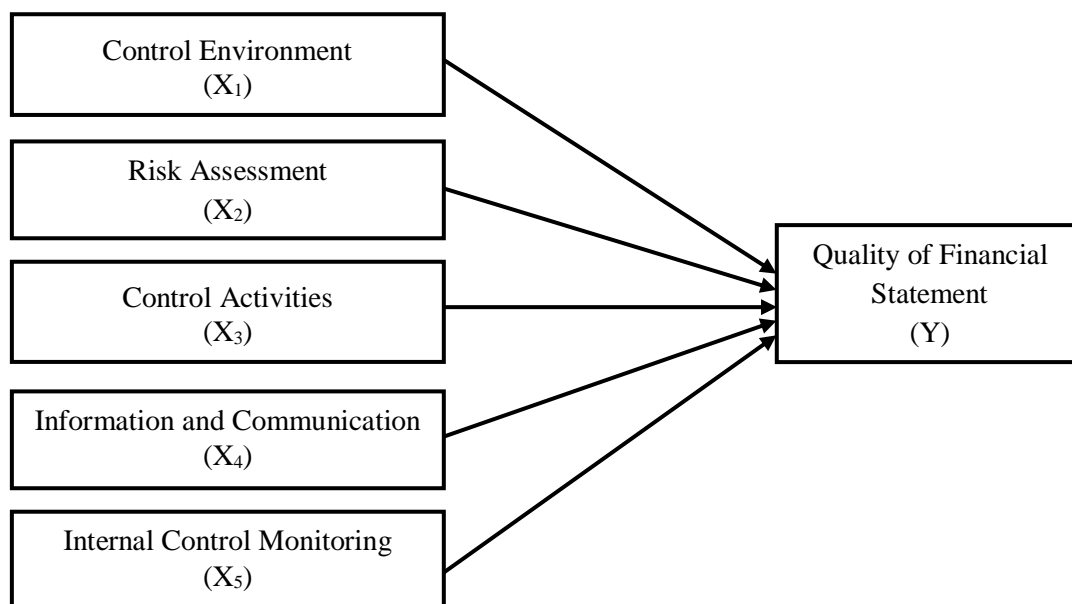


Figure 2.1. Conceptual Framework

Hypothesis

Based on research background, theoretical basis and conceptual framework, hence hypothesis of this research are:

1. The control environment affects the quality of the financial statements of the Government of Serdang Bedagai Regency.
2. Risk assessment affects the quality of the financial statements of the Government of Serdang Bedagai Regency.
3. Control activities affect the quality of the financial statements of the Government of Serdang Bedagai Regency.
4. Information and communication affect the quality of the financial statements of the Government of Serdang Bedagai Regency.
5. Monitoring of internal control affects the quality of the financial statements of the Government of Serdang Bedagai Regency.

3. RESEARCH METHODS

Types of Research

This study is a type of quantitative research that is causal associative which shows the presence or absence of causal relationship between independent variables to dependent variable based on census method. In this case the variables studied are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Internal Control to Quality of Financial Statements.

Population and Sample Research

According to Erlina (2011), that the population is a group of complete entities in the form of people, events or objects with certain characteristics in a region and meet certain conditions relating to research problems. In accordance with the characteristics of the region, terms and problems, the population in this study is the unit of financial management in 47 SKPD Government of Serdang Bedagai Regency. The sample consists of 3 people from each SKPD such as PA / KPA, KDP and Expenditure Treasurer that have important role, main duty, function and responsibility in the preparation of SKPD Financial Statement so that the total sample is 141 people.

Operational Definition and Variable Measurement Method

Operational definitions and measurement scales are briefly described in the following Table 3.1.:

Table 3.1. Operational Definition of Variable

Research Variable	Variable Definition	Variable Indicator	Measurement Scale
Quality of Financial Statement (Y)	Normative measures that need to be manifested in accounting information so as to meet its objectives.	1. Relevant Financial Statement; 2. Reliable; 3. Comparable, and 4. Understandable.	Interval
Control Environment (X ₁)	Overall organizational attitudes that affect the awareness and actions of organizational personnel about control	1. Enforcemnet of integrity and ethical values; 2. Commitment to competence; 3. Conducive leadership; 4. Establishment of organizational structure as needed, delegation of authority and responsibility appropriate.	Interval
Risk Assessment (X ₂)	Activities identify risks efficiently and effectively that can hinder the achievement of organizational goals both from within and outside agencies.	1. Risk Identification; 2. Risk Analysis.	Interval
Control Activities (X ₃)	Policies and procedures are established to ensure the implementation of guidelines made by management	1. Physical control of assets; 2. Determination and review of indicators and performance measures; 3. Authorization of important transactions and events	Interval
Information and Communication (X ₄)	The process of collecting and exchanging the information needed to implement, manage and control agency activities.	1. Communication means; 2. Management of information system.	Interval
Internal Control Monitoring (X ₅)	Performance quality assessment process over time from the internal control structure.	1. Ongoing monitoring; 2. Separate Evaluations and Follow-up recommendations of audit results and other reviews.	Interval

Data Analysis Method

The data were processed using SPSS application program and analyzed using multiple linear regression statistic technique. For the validity of the analysis, the data were tested using the quality test of the research instrument, the data normality test and the classical assumption test. The model of multiple regression equation used to test the hypothesis is:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Y = Quality of Local Government Financial Statement

X₁ = Control Environment

X₂ = Risk Assessment

X₃ = Control Activities

X₄ = Information and Communication

X₅ = Internal Control Monitoring

a = Constanta

β₁, β₂, β₃, β₄, β₅ = Regression Coefficient

e = Error

4. RESULT

Normality test

Normality test uses statistical analysis One-Sample Kolmogorov-Smirnov Test with test results show sig value. (2-tailed) > α (0,200 > 0,05). Thus it can be concluded that through statistical tests proved residual data is normally distributed.

Multicollinearity Test

The multicollinearity test is performed by analyzing the correlation matrix of the independent variables (Ghozali, 2016). The multicollinearity test results show that all independent variable correlation coefficients, as shown in Table 4.1, are in the range 0.009 - 0.497 and smaller than the required maximum limit (0.60). No independent variable has a correlation rate greater than 60%. This means there is no strong correlation between independent variables in the regression model. In conclusion, based on multicollinearity test results, there is no multicollinearity among independent variables in the regression model.

Table 4.1 Independent^a Variable Correlation

Variabel	X ₁	X ₂	X ₃	X ₄	X ₅	Keputusan
Control Environment (X ₁)	1,000	-0,497	-0,332	0,009	-0,246	Uncorrelated
Risk Assessment (X ₂)	-0,497	1,000	-0,400	-0,146	-0,058	Uncorrelated
Control Activities (X ₃)	-0,332	-0,400	1,000	-0,128	0,161	Uncorrelated
Information and Communication (X ₄)	0,009	-0,146	-0,128	1,000	-0,297	Uncorrelated
Monitoring (X ₅)	-0,246	-0,058	0,161	-0,297	1,000	Uncorrelated

a Dependent Variable: Quality of Local Financial Statement (Y)

Source: Research Result, 2017 (analyzed data)

Heteroscedasticity Test

Heteroskedasticity test using Glejser test performs residual absolute value regression against independent variable (Ghozali, 2016). The result of the heteroscedasticity test shows that the residual significance value of each independent variable, as shown in Table 4.2, is in the range

0.153 - 0.924 and greater than the required significance value (0.05). None of the independent variables has a significant effect on the dependent variable of absolute residual value (Abs). That is, the regression model has a constant residual variant (homoscedasticity). As a conclusion, based on heteroscedasticity test results, there is no heteroscedasticity in the regression model.

Table 4.2 Glejser Test

No	Variable	T	Sig	Result
1.	Constanta	2,045	0,043	
2.	Control Environment (X ₁)	0,096	0,924	Insignificant
3	Risk Assesment (X ₂)	-0,237	0,813	Insignificant
4.	Control Activities (X ₃)	0,268	0,789	Insignificant
5.	Information and Communication (X ₄)	-0,255	0,799	Insignificant
6.	Monitoring (X ₅)	-1,438	0,153	Insignificant

b Dependent Variable: Abs_Res1

Source: Research Result, 2017 (analyzed data)

Hypothesis Test Results

The results of the first hypothesis test can be seen below:

Table 4.3 Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876 ^a	.767	.757	1.51908

Source: Research Result, 2017 (analyzed data)

Coeffisient of Determination (*Adjusted R²*)

From Table 4.3 above, the value of Adjusted R² of 0.757 means the variable The quality of the financial statements as the dependent variable can be explained by the control environment variable, risk assessment, controlling activity, information and communication, and monitoring of 75.7%, while the rest of 24.3 % can be explained by other variables not included in this research model.

t-Test Statistic (Partial Test)

The result of statistical test t (partial test) both controlling environment, risk assessment, controlling activity, information and communication, and monitoring influence positively and significantly to the quality of financial report obtained result:

Table 4.4 t-Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.063	2.010		-1.027	.307
	Control Environtment	.619	.183	.265	3.386	.001
	Risk Asse	.555	.139	.322	3.990	.000
	Kegiatan Pengendalian	.670	.191	.249	3.507	.001
	Informasi dan Komunikasi	.410	.174	.123	2.360	.020
	Pemantauan	.279	.139	.103	2.007	.047

The result of the t-statistical test shows that the five independent variables included in the regression model are partially controlled environmental variables, risk assessments, control activities, information and communication, and partial monitoring significantly influence the quality of financial statements because the value of significance of each variable is 0.001; 0,000; 0.001; 0.020; 0.047 is smaller than $\alpha = 5\%$.

5. DISCUSSION

Hypothesis test results concluded that the control environment variables, risk assessment, control activities, information and communication, and monitoring have a positive and significant impact on the quality of financial statements at the Government of Serdang Bedagai Regency. This is in accordance with the research hypothesis because all variables (X) partially have a positive and significant effect on the quality of financial statements (Y), with significance levels below 0.05.

Effect of Control Environment on Quality of Financial Statement

The result of hypothesis test shows that the control environment variable, partially, has a positive and significant effect on the quality of the financial statements of the Government of Serdang Bedagai Regency. The Government of Serdang Bedagai has implemented a control environment as a soft control to build ethics, morals, integrity, honesty, discipline, competence, commitment from the executor of activities to be able to realize the quality of financial statements. It certainly needs to be supported with good hard control in order to always form a commitment from management to implement SPIP in accordance with applicable regulations.

Herawati research (2014) proves that there is a positive and significant influence between the control environment on the quality of financial statements. In line with research Nugraha (2010) concluded that the control environment affects the reliability of financial statements. Herawati (2014) concluded that the control environment directly determines changes in the quality of financial statements. The calculation results even show that the control environment has the largest portion of influence compared with other variables.

Influence of Risk Assessment on Quality of Financial Statement

The result of hypothesis test shows that risk assessment variable, partially, has a positive and significant effect on the quality of financial report of Serdang Bedagai Regency Government. Initial step in managing risk has been done well using risk assessment (identification and evaluation of risks attached to the organization) resulting in a list of mapping and quantity of risk as well as list of risk responses. To produce a reliable financial report, the initial step is not enough because it still recognizes the risks and how to overcome them from the evaluation results of previous activities. To improve organizational performance and governance, there is a need for unified enterprise risk management, internal control and fraud deterrence.

The results of this study are in line with Herawati (2014) study which states that risk assessment affects the quality of financial statements. And this research is supported by Nugraha Research (2010) which proves that risk assessment has a positive and significant impact on financial statement reliability.

Influence Control Activities to Quality of Financial Statement

The result of hypothesis test shows that the controlling activity variable, partially, has a positive and significant effect to the quality of the financial statements of the Government of Serdang Bedagai Regency. Control activities help ensure that necessary actions related to controls have been taken to realize the quality of financial statements. Elements of control activities include approval, authorization, and verification. So it can be concluded that the control activities provide the separation of duties and responsibilities of each financial management so that the goal can be achieved effectively and efficiently. In Government Regulation No. 60 Year 2008 states that the leadership of government agencies shall conduct control activities in accordance with the size, complexity, and nature of the duties and functions of government agencies concerned.

The results of this study are in line with the research Nugraha (2010) which concluded that the control activities have a significant effect on the reliability of financial statements. The results of this study are not in line with research Herawati (2014) stating that control activities do not affect the quality of financial statements. It can be caused by difference of responden and real condition of research in field so that level of respondent understanding about concept of control activity become different also. For example there are differences in leadership policy in terms of performing the separation of tasks in accordance with the separation of the established functions.

Influence of Information and Communication on Quality of Financial Statement

The result of hypothesis test shows that the variables of information and communication, partially, have a positive and significant effect on the quality of financial report of Serdang Bedagai Regency Government. Information should flow throughout the organization so that the individual understands his role in the internal control system and realizes that his work is related to the work of others. In order for effective internal control, relevant information should be identified, captured and communicated in the form and time that enable people to carry out their responsibilities. Effective communication in financial management is the center of effective internal control, so as to realize the quality of financial statements. Information as an effective communication tool with a high degree of accuracy delivered in program / activity reports becomes an evaluation material for further planning improvements.

The results of this study are in line with Herawati (2014) and Nugraha (2010) studies which states that information and communication have a positive and significant effect on the quality of financial statements. Financial managers shall identify, record, utilize and communicate information appropriately to support the achievement of financial reporting objectives.

The financial statements generated through the accounting system are one of the most important forms of information as they are created to identify, assemble, analyze and report transactions and hold accountable wealth and debt of an entity. Good communication between personnel can facilitate the circulation of information, this can ultimately increase the accuracy of a financial report (Anindita 2006).

Effect of Monitoring on the Quality of Financial Statements

The result of hypothesis test shows that the variables of information and communication, partially, have a positive and significant effect on the quality of financial report of Serdang Bedagai Regency Government. Monitoring is conducted through routine management monitoring / control activities related to the execution of tasks by both direct supervisors and controls in the form of inter-field coordination to provide inputs, direct calls by the Head of Service if they need information related to financial management issues. Furthermore, it is conveyed that the control is shaped by the environment, meaning the controlling environment. The results of this study are in line with the research conducted by Nugraha (2010) that monitoring has a positive effect on the reliability of financial statements in the West Java

provincial government. In contrast, the results of this study are not in line with Herawati (2014) study which states that monitoring does not affect the quality of financial statements. According to Wawan (2009) the implementation of internal control performed effectively can lead to a well-established financial accounting system to avoid deviations and misappropriation in the implementation of financial accounting system, giving authority and flexibility must be followed by strong supervision.

6. CONCLUSION

From the data analysis, hypothesis testing and discussion of research, it can be taken some conclusions:

1. The control environment has a positive and significant impact on the quality of the financial statements of the Government of Serdang Bedagai Regency.
2. Risk assessment has a positive and significant impact on the quality of the financial statements of the Government of Serdang Bedagai Regency.
3. Control activities have a positive and significant impact on the quality of the financial statements of the Government of Serdang Bedagai Regency.
4. Information & communication has a positive and significant impact on the quality of the financial statements of the Government of Serdang Bedagai Regency.
5. Monitoring has a positive and significant impact on the quality of the financial statements of the Government of Serdang Bedagai Regency.

Limitations of Research

1. This research uses survey method using questionnaire and not direct interview. This is likely to lead to a mistake of perception by respondents.
2. This research is conducted only in Serdang Bedagai Regency, so it allows for different research results if the research is done on different object and research area.

7. SUGGESTION

The following suggestions for various parties related to the results of analysis of research data:

1. A further researcher who wishes to examine the quality of financial statements is advised to add other variables related to the quality of financial statements, such as leadership commitments, the role of internal audit and asset management.
2. For the Government of Serdang Bedagai Regency, in order to improve the quality of financial reports, the local government of Serdang Bedagai Regency is advised to always improve the control activities. Control can be done by considering systematic assignment of tasks to a number of people to provide confidence in checks and balances. The supervisory apparatus (Regional Inspectorate) should be more effective in conducting the guidance such as controlling routinely on SKPD in Serdang Bedagai Regency.

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